

EUROPEAN PARLIAMENT

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Committee on Legal Affairs

2006/2248(INI)

5.10.2007

OPINION

of the Committee on Legal Affairs

for the Committee on Economic and Monetary Affairs

on International Financial Reporting Standards (IFRS) and the governance of
the IASB
(2006/2248(INI))

Draftsman: Klaus-Heiner Lehne

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SUGGESTIONS

The Committee on Legal Affairs calls on the Committee on Economic and Monetary Affairs, as the committee responsible, to incorporate the following suggestions in its motion for a resolution:

1. Repeats Parliament's position as stated in paragraphs 37 to 39 of its resolution of 4 July 2006 on recent developments and prospects in relation to company law¹;
2. Deplores the fact that the International Accounting Standards Board (IASB) lacks democratic control and pluralistic input and thus arrives at decisions that do not adequately reflect the reality of European companies, notably European small and medium-sized enterprises (SMEs);
3. Notes the merits of International Financial Reporting Standards (IFRS), which do not just concern technical accounting aspects but also bring benefits to capital markets and to the European Union as a world leader;
4. Stresses the need for more representatives with a European background within the international standard-setting bodies, in order to legitimate a truly international approach and to meet the need for a balanced consideration of the weight of the European Community, constituting as it does by far the largest economic area and the area with the most entities applying IFRS; believes that all trustees of the IASB should come from nations that have signed up, or intend to sign up, to IFRS;
5. Notes the increasingly theoretical dimension of the IASB's projects, the complexity and theoretical nature of which are such that SMEs, in particular, are not always able to follow them;
6. Notes, furthermore, that practical business aspects are not adequately reflected by the IASB; considers that, from a user's perspective, the financial statement presentation for accounting does not always lend itself to being used for other purposes, e.g. for the purposes of providing financial information to investors, performance monitoring or financial management;
7. Notes the concerns of those who feel that the "decision-usefulness of fair value" approach to accounting, which is increasingly being used by the IASB, can create a disjunction between the picture that is produced by accounts and the actual position of companies, thus reducing the ability of investors to determine the performance of companies;
8. Supports the idea of convergence and equivalence; emphasises, however, that convergence with certain third-country standards must be based on a prior assessment of the merits and impact of such a change on European preparers and users of financial statements and especially on SMEs, and calls on the IASB to bear this in mind when proceeding; believes that convergence would be sufficient if a company's accounts produced in accordance with IFRS could be accepted and recognised under US Generally Accepted Accounting Principles without any significant extra cost to companies;

¹ OJ C 303 E, 13.12.2007, p. 114.

9. Stresses that consistency in adoption and application is essential to the success of the IFRS, but recalls that these are principle-based standards and that, therefore, consistency should not be pursued to the detriment of professional judgement;
10. Underlines that no political mandate has been conferred on the IASB to develop IFRS for SMEs; points out that the EU endorsement procedure applies only to international accounting standards for listed companies and is not envisaged with regard to the IFRS for SMEs;
11. Questions, moreover, whether the draft IFRS for SMEs appropriately reflect the needs of SMEs and the variety of modes and sizes in which they operate; is concerned that the draft was designed with relatively large SMEs in mind (over fifty employees) and asserts that most SMEs are smaller in size; observes that the IFRS involve very much a 'top-down' approach and queries whether this is appropriate for the diversity that exists among SMEs; is concerned that the draft IFRS for SMEs refer to using the lower of historical cost or fair value approach which implies a double calculation;
12. Regrets that the draft IFRS for SMEs do not take adequate account of the fact that the addressees of SMEs' accounts are mainly personal shareholders, creditors, business partners and employees rather than anonymous investors as in the case of public companies, and that the addressees of SMEs' accounts are interested in a long-term business relationship rather than a short-term investment;
13. Emphasises that the draft IFRS for SMEs should refrain from making references to the IFRS for public companies, since SMEs having a very limited workforce cannot handle the huge IFRS compendium;
14. Acknowledges, however that there is an overall need for simplification of accounting and auditing measures for SMEs, while recalling that SMEs are creators of jobs and a motor of economic growth;
15. Believes that there should be an open debate about accountancy standards; to this end, believes that the IASB should strengthen its due process as regards stakeholders so that the views of all IFRS users and investors are taken into account;
16. In the light of the foregoing, encourages the Commission to continue its activities with regard to the simplification of company law, accounting and auditing for SMEs via the relevant legislative acts, in particular the Fourth¹ and Seventh² Company Law Directives.
17. Asserts that any SME standard must be simple and flexible, avoid a one-size-fits-all model and should apply only to SMEs that are active on a cross-border basis;
18. Expresses concern, while supporting the IASB's intention to improve existing standards, that making continual adjustments, and even small changes, can be costly and result in expensive changes for large companies; believes that any changes should only happen

¹ Fourth Council Directive 78/660/EEC of 25 July 1978 on the annual accounts of certain types of companies (OJ L 222, 14.8.1978, p. 11). Directive as last amended by Directive 2006/46/EC of the European Parliament and of the Council (OJ L 224, 16.8.2006, p. 1).

² Seventh Council Directive 83/349/EEC of 13 June 1983 on consolidated accounts (OJ L 193, 18.7.1983, p. 1). Directive as last amended by Directive 2006/99/EC (OJ L 363, 20.12.2006, p. 137).

when deemed necessary following a cost-benefit analysis.

RESULT OF FINAL VOTE IN COMMITTEE

Date adopted	4.10.2007
Result of final vote	+: 25 -: 0 0: 0
Members present for the final vote	Carlo Casini, Bert Doorn, Cristian Dumitrescu, Monica Frassoni, Giuseppe Gargani, Lidia Joanna Geringer de Oedenberg, Katalin Lévai, Hans-Peter Mayer, Manuel Medina Ortega, Aloyzas Sakalas, Francesco Enrico Speroni, Gary Titley, Diana Wallis, Rainer Wieland, Jaroslav Zvěřina, Tadeusz Zwiefka
Substitute(s) present for the final vote	Mogens N.J. Camre, Charlotte Cederschiöld, Kurt Lechner, Eva Lichtenberger, Marie Panayotopoulos-Cassiotou, József Szájer, Jacques Toubon
Substitute(s) under Rule 178(2) present for the final vote	Iles Braghetto, Michael Cashman, Genowefa Grabowska, Lily Jacobs